

**BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN**

Quadrennial Planning Process

**Phase II—Goals, Funding Levels, and
Rate Mitigation Issues**

DOCKET NO. 5-FE-100

**COMMENTS OF THE INDUSTRIAL CUSTOMER GROUPS
TO COMMISSION'S NOTICE OF INVESTIGATION REGARDING
QUADRENNIAL PLANNING PROCESS II**

The Wisconsin Industrial Energy Group, Inc. (“WIEG”), Wisconsin Manufacturers & Commerce (“WMC”), and the Wisconsin Paper Council (“WPC”) (together, the “Industrial Customer Groups” or “ICG”), appreciate the opportunity to provide feedback regarding the Quadrennial Planning process. Specifically, the Public Service Commission of Wisconsin’s (“PSCW” or the “Commission”) issued a Notice of Investigation (“NOI”) on July 3rd seeking comments to evaluate of all the energy efficiency and renewable resource programs (statewide and utility voluntary programs) and determine their appropriate goals, priorities, and measurable targets. State law requires the Commission to review energy efficiency and renewable resource programs periodically.¹

The NOI seeks to identify if any of the past decisions regarding the Quadrennial Process should be revisited and/or if new issues should be addressed. In addition, feedback is also being sought regarding water efficiency issues.

ICG’s comments below focus only on the issues that need to be addressed and/or revisited. Overall, the ICG believes that there should be equal emphasis placed on energy and

¹ See Wis. Stat. § 196.374(3)(b)1.

demand savings and that certain metrics related to ascertaining cost effectiveness should be revisited. While ICG does not oppose incorporating energy savings associated with water efficiency, such initiatives should only be considered if they are cost effective and meet the same standards of cost effectiveness as are being recommended overall for energy efficiency and renewable resource programs.

1. How statewide energy efficiency and customer-sited renewable resource goals should be established?

- a. Should energy efficiency and customer-sited renewable resource goals be based on resource acquisition, contribution to emission reduction targets or a combination of the two? If a combination, what should be the appropriate balance? (i.e. what is the appropriate balance between energy and demand savings?)**

In the previous Quadrennial Process, the Commission decided that energy efficiency and renewable resource goals should be established as reductions in energy use and demand, recognizing that emissions reductions will follow. The Commission also determined that while both energy and demand goals should be established, there should be greater emphasis on reducing energy use than demand reduction. The ICG supports the decision to establish goals based on reductions in energy consumption and demand but believes that the Commission should revisit the determination of placing greater emphasis on reducing energy use than demand reduction. Equal importance should be given to reducing energy and demand because both defer power plant construction further into the future. Further, given that some utilities are seeking capacity in the next five years, it becomes important at a minimum to place equal importance on demand as on energy reduction. The current method of placing higher emphasis on energy than demand reduction for goals and incentive mechanisms for the Program Administrator is likely to promote emission reductions. ICG believes that energy policy should not be used as a vehicle to

promote an emission reduction strategy that is not currently reflected in state or federal mandates. Instead, the focus should be on resource acquisition and the recognition at the very least that reducing demand is just as important as reducing energy. Thus, equal emphasis should be given to reducing energy and demand. The performance mechanism for the Focus on Energy program administrator should also be modified accordingly from its current higher energy reduction emphasis.²

2. Phase 2: Evaluation

2B) which cost-effectiveness tests are the most appropriate in the context of program approval, contract achievement, and societal benefits?

ICG members support energy efficiency investments provided they are cost effective for participating and non participating customers. At present, the Total Resource Cost Test is used to measure effectiveness at the measure and portfolio level and the Utility/Administrator test to inform program design. The ICG believes that it is also important to conduct the Ratepayer Impact Test in order to ascertain cost effectiveness for non-participating customers. If the benefit –to-cost ratio is less than 1, costs are higher than benefits and all customers including non-participating customers are not benefitting from the program portfolio. Conversely, if this ratio is more than 1, it means that all customers are benefitting from the energy efficiency initiatives. Thus, using the Ratepayer Impact Test, only energy efficiency measures and portfolios with a benefit to cost ratio of 1 or greater should be adopted.

3. Phase 2: Evaluation

C.1) how should the costs and benefits associated with energy efficiency and renewable resources be quantified? 1) What is the appropriate basis for calculating avoided costs which are used to value the benefits of energy efficiency?

C.2) what is the appropriate discount rate to use for benefit/cost modeling?

C.3) how should carbon be valued over time?

² See Quadrennial Process I decisions, Phase 2, Goals and Budgets

The quantification of costs and benefits (and therefore, cost effectiveness) associated with energy efficiency and renewable resource initiatives are highly dependent on key assumptions used for avoided costs, discount rate determinations and carbon valuation. Therefore, it is very important that these assumptions are fully vetted with relevant, interested stakeholders.

i. Avoided Costs

With respect to avoided energy costs, ICG believes that metrics other than historical LMPs should be used as benchmarks for long term avoided costs. In order to develop alternative metrics, it is important that the methodology, assumptions and data inputs used to calculate avoided energy cost be vetted with interested stakeholders. Therefore, ICG recommends that a working group be convened to identify the appropriate methodology and assumptions. Regarding avoided capacity costs, the cost of a new peaking plant is appropriate.

ii. Discount Rate

A significant driver of overall cost-effectiveness of energy efficiency is the discount rate assumption. The discount rate is used to calculate the Net Present Value (“NPV”) of the net benefits of the energy efficiency initiatives or portfolios. The lower the discount rate, the higher is the present value of the net benefits.

At present, real discount rate of 2% used in benefit/cost modeling to ascertain the NPV. Discount rates implicit in implementing energy efficiency initiatives by industrial customers are typically much higher as demonstrated by the shorter payback requirements. Thus, the ICG believes that this rate is unrealistic and at a minimum, the utilities’ weighted cost of capital should be used to more accurately calculate the NPV of the net benefits. Utilizing the utilities’ weighted cost of capital also places the energy efficiency initiatives on the same playing field as other supply side resources.

iii. Carbon Value

Currently, a levelized value of \$30/ton is used for carbon to evaluate energy efficiency initiatives over time. Since there are no existing state or federal level laws regarding carbon monetization, it seems unrealistic to assume such costs starting from the present time and over the life of the energy efficiency or renewable resource measure. By including such an assumption, the end result is that energy efficiency and renewable resource initiatives appear to be more cost effective than they actually are. The ICG recommends that no carbon values be included in the modeling analysis. However, if the Commission determines that they are required, the ICG recommends that a phase-in approach be used wherein a price of carbon is used further in the future instead of the present time.

4. Water Efficiency

The NOI also seeks feedback on whether water efficiency measures, and their associated energy savings, should be incorporated into the Focus on Energy program and addressed in this docket. It is not clear whether current statutes allow water efficiency measures to be incorporated into the Focus on Energy program. While ICG would not oppose including associated energy savings related to water efficiency in the state energy efficiency programs, they should be evaluated and incorporated only if they are deemed cost effective, using the same measures of cost effectiveness (with modifications as identified above) as other energy efficiency measures.

ICG appreciates the opportunity to comment on the Commission's NOI regarding the Quadrennial Process II. We look forward to providing further assistance and feedback as this investigation progresses.

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